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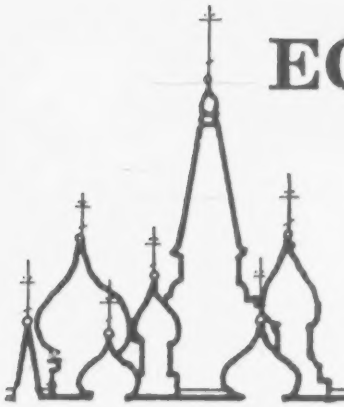

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.6
February 23, 1991

ECONOMIC RESULTS FOR 1990

(Million tons unless otherwise indicated)

Product	1990 Output	1990 as % of 1989
Electricity (bil. kw hrs)	1728	100.3
Oil	570	94
Gas (mil. m^3)	815	102
Coal	703	95
Steel	154	96
Metal Cutting machine tools (1000 units)	22.5	95
Computer technology (billion rubles)	7.2	93
Tractors (1000 units)	494	93
Mineral Fertilizer	31.7	92
Pharmaceuticals (billion rubles)	3.9	106
Paper	6.2	97
Cement	137	98
Meat	12.8	97
Sausage products	3.9	100
Edible fish products	5.3	93
Butter	3.3	100.3
Cheese (1,000 tons)	881	98
Wholemilk products	34.6	100.1
Margarine products (million tons)	1.4	93
Granulated sugar	12.2	91
Confectionary	8.4	96
Canned foods (bil. cans)	20.4	97
canned fruit/vegs	14.3	96
Nonalcoholic beverages (million dekaliters)	582	93
Footwear (mil. pairs)	820	99.2
Television sets (billion units)	10.5	106
Refrigerators/freezers (billion units)	7.2	100.5
Radios (billion units)	6.5	107
Tape recorders (billion units)	6.3	109
VCRs (thousands)	454	364
Sewing machines (million units)	1.8	113
Washing machines	7.9	118
Vacuum cleaners (million units)	5.8	113
Furniture (bil. rubles)	10.3	107
Motorcycles (thousands)	1014	102
Cars (millions)	1.3	103
Paper Goods (mil. rubles)	979	108
Household soap (thousand tons)	710	97
Toilet soap (thousand tons)	309	101

Livestock Herds

(as of January 1st, million head)

	1990	1991
Cattle	118.4	116.2
out of which cows	41.7	41.4
Hogs	79	76.8
Sheep and goats	145.4	141.1

Economic Results for 1990

There is more gloomy news on the economic front. The annual report for 1990 is another in a string of increasingly poorer reports. Officially, the Soviets announced that the GNP for 1990 was 2% below what it had been in 1989 and that national income was down by 4%.

In the traditional industrial sector which the Soviet Union used to stress, and now puts back in the middle of their annual report, the major industries also seem to be suffering. Oil production, for example, was down 6% for the whole year and coal production was down 5%. Oil output is expected to fall even more in the months ahead. And as the production of oil falls, it is expected that exports will also fall. For example there are now reports in the Soviet press that oil production for 1991 is expected to fall 30-40 million tons, compared to the ten million ton droppage that took place in 1990. That is why some predict that the Soviet Union will become an oil importer three years from now. Electrical energy generation was just about the same as it was last year, which was quite an achievement given the fact that the Soviets are now having very serious problems in operating their nuclear energy plants and indeed now acknowledge that they have trouble finding places to locate them given the resistance of the neighbors.

Steel production is down 4%, cement production down 2% and paper is almost the same as it was last year.

The situation in food production seems to be particularly serious. The Soviets acknowledge that "the production of the majority of the kinds of food products decreased." They also acknowledge a drop in the production of razor blades, school notebooks, soap and cigarettes. Cigarette production in fact was down 9% from the proceeding period. Apartment construction was down 20%.

Compounding the problem is that while production is dropping, money incomes are rising. Money incomes rose approximately 17% and average wages rose from 240 rubles a month to 270 rubles a month. The average wage in cooperatives was almost double that, at 450 rubles a month.

As a sign of things to come, the size of all the herds are also down. In the extreme case the pig herd has reduced by 3%. Until recent years, there was always at least one animal that always seemed to be available in larger numbers than before. On top of everything else, the farmers were supplied with significantly smaller amount of farm machinery.

The Soviets have also begun to introduce a new way of classifying their grain crop. They now refer to grain weight after additional processing, which presumably allows for some loss. Thus the 1990 crop is reported at 218 million tons in contrast with the 240 million tons that they initially reported. In the same way, the crop for 1989 is now listed at 196.7 million tons in contrast to 210 million tons reported in 1989 itself. There seems to be a slippage of about 15 to 20 million tons. In earlier years the slippage was about fifteen million tons, but in 1990 apparently there was more wastage and so the figure was closer to twenty. As a consequence the Soviets now say that the crop for 1990 was actually lower than the 222.5 million tons harvested in 1978. In other words, at least in terms of grain taken from the field, 1990 was not the record year it was reported. Originally it was assumed that the 240 tons initially reported for 1990 exceeded the 237 million tons of 1978.

Equally disturbing is the fact that as of January 1, 1991, only 82% of the contracts that were supposed to have been signed were signed in contrast to the figure for the earlier

year that it reached 94%.

The Soviets also report that their foreign trade balance deteriorated and that the total exports were only 88% of what they had been in the preceding year, whereas imports were 98%. As a consequence, they acknowledged a threefold increase in the negative trade balance for the year. Overall it was reported at 10 billion rubles, although that includes trade with the members of the communist bloc, and that trade in 1990 was not conducted for the most part in hard currency.

While at this writing the figures for January are not yet available, the new Prime Minister Valentin Pavlov reported in an interview he gave to the newspaper Trud that industrial output in January was only 50% of what it had been January 1990. That suggests that even more bad news is to follow in our next newsletter.

Auction Results

As the enclosed figures indicate, in the currency auction that took place in Moscow on January 24, 1991, the value of the dollar rose to 25.02 rubles compared to 22.85 on January 8, 21.61 on December 14, 1990, and 20.94 on November 30, 1990. That contrasts with the official commercial rate of $1=1.6677 rubles.

Valiutnyi Auction

Date	Rubles to 1 US dollar
Jan. 24, 1991	25.02
Jan. 8, 1991	22.85
Dec. 14, 1991	21.61
Nov. 30, 1991	20.94

FOREIGN EXCHANGE RATES

as of 23 January 1991
Quoted in rubles

	Official Rate	Commercial Rate	Special Rate
£100 Sterling	107.58	322.74	1075.80
100 Aust. Sch.	5.24	15.72	52.40
100 D. Marks	36.85	110.55	368.50
100 D. Guilders	32.73	98.19	327.30
100 U.S. Dollars	55.59	166.77	555.90
100 Fr. Francs	10.82	32.46	108.20
1,000 Jap. ¥	4.17	12.51	41.70
10,000 It. Lire	4.90	14.70	49.00
100 Swiss Frs.	43.88	131.64	438.80
100 Nor. Kroner	9.45	28.35	94.50
1,000 Bel. Frs.	17.91	53.73	179.10
100 Sw. Kronor	9.88	29.64	98.80

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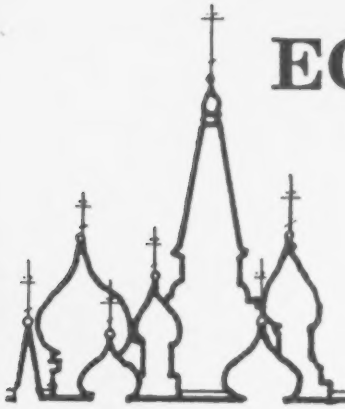

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.7
March 15, 1991

It is cruel and unusual punishment to begin each newsletter with the statement that the economic situation in the Soviet Union has deteriorated. Nonetheless that continues to be the case. Because the Soviet statistical authorities are issuing fragmentary data about output each month, it is difficult to determine just how serious conditions are, but they have released significant hints. For example, in January Soviet authorities reported that petroleum output was down by 8 to 9%. We reported in the last newsletter that the expectation is that oil output for all of 1991 will fall by 30 to 40 million tons which represents an 8 to 9% drop. Naturally enough if production declines, exports should also be effected. Our preliminary reports also show that oil exports for 1990 were down 10 million tons from 1989. The expectation is that in 1991 they will be down 30 to 40 million tons and there have been some reports in the general press that should this trend continue, by 1995 it will be necessary for the Soviet Union to import petroleum.

The situation is likely to continue to deteriorate because the miners have gone out on strike again. As of this writing, the number of strikers is relatively small but the economic issues that they have been fighting for have now been expanded to include political demands as well. One of the most potentially disturbing demands is the call for Gorbachev's resignation. Under those circumstances it will be very difficult to reach some kind of agreement.

Perhaps the most sensational report about the depth of the Soviet Union's problems is the report that appeared in The Financial Times after a broadcast on the BBC. That Gosplan should suggest that the Soviet GNP in 1991 will be down by 11.6% is very dramatic. It is entirely possible that report which was presented to the International Monetary Fund was an exaggeration of the seriousness of the condition, but the fact remains that indeed there are signs which suggest that output will be down sharply. What is beginning to happen is that as one portion of the economy has problems, those difficulties spread like an epidemic to other parts of the economy. For example, one of the reasons oil output is down is because the workers are working to rule. One of the reasons they are working to rule is because they are not receiving their supplies of consumer goods. That is a result of several factors. Because prices in most state shops have not been increased, a vast quantity of consumer goods have been sucked out of state channels and into private and black market sales. In addition because of growing anger among the workers there have been an increasing number of mishaps affecting pipelines and railroad lines. This disrupts transportation which intensifies the energy shortage which in turn leads to more disruption. In other words the prospects are not very promising.

The Currency Auction

The currency auction figures show that the ruble continues to decline in value. Whereas the January auction price was 25 rubles to the dollar, it took 29.69 rubles to buy a dollar on February 13, 1991. That suggests that, at least at that stage, Prime Minister Valentin Pavlov's currency reform had no impact on the value of the ruble. If anything, it made it even less valuable.

Valiutnyi Auction

Date	Rubles to 1 US dollar
Feb. 13, 1991	29.69
Jan. 24, 1991	25.02
Jan. 8, 1991	22.85
Dec. 14, 1991	21.61
Nov. 30, 1991	20.94

Arden House

The Arden House program has been sent out to most of our readers. There have been some additions to the program. We will now be joined by Congressmen Thomas Downey and Stephen Solarz in addition to Congressman Steny Hoyer. A new program and enrollment form are enclosed.

FOREIGN EXCHANGE RATES
as of February 13, 1991
Quoted in rubles

	Official Rate	Special Rate
£100 Sterling	108.49	1084.90
100 Aust. Sch.	5.33	53.30
100 D. Marks	37.46	374.60
100 D. Guilders	33.23	332.30
100 U.S. Dollars	54.50	545.00
100 Fr. Francs	10.99	109.90
1,000 Jap. ¥	4.27	42.70
10,000 It. Lire	4.98	49.80
100 Swiss Frs.	43.87	438.70
100 Nor. Kroner	9.57	95.70
1,000 Bel. Frs.	18.20	182.00
100 Sw. Kronor	9.97	99.70

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THE BOSTON SUNDAY GLOBE • MARCH 10, 1991

The retreat of Mikhail Gorbachev

MARSHALL I. GOLDMAN

Two weeks ago, as he reflected on his 60th birthday, and today, as he marks his sixth year as general secretary of the Communist Party of the Soviet Union, Mikhail Gorbachev cannot help but wonder what went wrong.

The outside world did not know it at the time, but four months before he became general secretary, Gorbachev and his confidant and fellow Politburo member, Eduard Shevardnadze, had a long talk about the kind of Soviet Union both wanted. Provoked by Shevardnadze's insistence that the Soviet experiment "had all gone rotten," the two agreed "it was impossible to live that way." Their approach would be predicated on "a simple formula: more democracy, more glasnost, more humanity" and "perestroika."

The devil was in the doing. Without doubt the Soviet Union is a different place today than it was six years ago. But not necessarily better.

Moreover, even where conditions are better, they often are not as good as they were even 12 months ago. Thus, Gorbachev once again has gone back to emphasizing his role as general secretary of the Communist Party rather than his post as president of the country. Moreover, it is a different president than the Gorby we came to love and applaud as recently as May, when he last visited the United States – the one who brought us perestroika, glasnost and the end of the Cold War.

Gorbachev's economic policy has been a major disappointment, at least within the Soviet Union. Officially the Soviet national income dropped 4 percent last year, but if inflation, which reached almost 50 percent a year, is taken into account, the drop in national income is probably 8 percent or more. So far this year, oil output is down about 8 percent, and petroleum exports, the Soviet Union's main hard-currency earner, are down about 20 percent. More important for the Soviet consumer, shelves in state shops are empty. True, goods are available in the peasant and cooperative markets, but usually at prices that are two to three times higher. An ill-designed currency reform has hurt the elderly and peasants as much or more than it hurt black market dealers who, wary of such a move, had protected themselves by putting their wealth into dollars or property.

Without doubt the Soviet Union is a different place today than it was six years ago. But not necessarily better. Moreover, even where conditions are better, they often are not as good as they were even 12 months ago.

Now, confronted by a collapsing economy, Gorbachev seems unable to decide what to do next. In August, he seemed on the verge of supporting a massive overhaul of the economy, but then backed away. Similarly, after saying he was in favor, he now acknowledges opposition to the sale of private land to owners and has even expressed doubts about the wisdom of allowing private cooperatives.

Reflecting that hostility, Vladimir Kryuchkov, the director of the KGB, and Valentin Pavlov, the prime minister, have lashed out at foreigners and their Soviet joint ventures. To Kryuchkov, the KGB must be vigilant against foreign attempts to "inflict economic damage in our country" or "economic sabotage." They "deliver impure and sometimes infected grain as well as products with above average levels of radioactivity or harmful chemical additives." In the same vein, Pavlov warns that the sale of land will primarily benefit our "dirty millionaires," who, rather than hire what might well become unemployed collective farmers, will more likely "use the land for radioactive dumps."

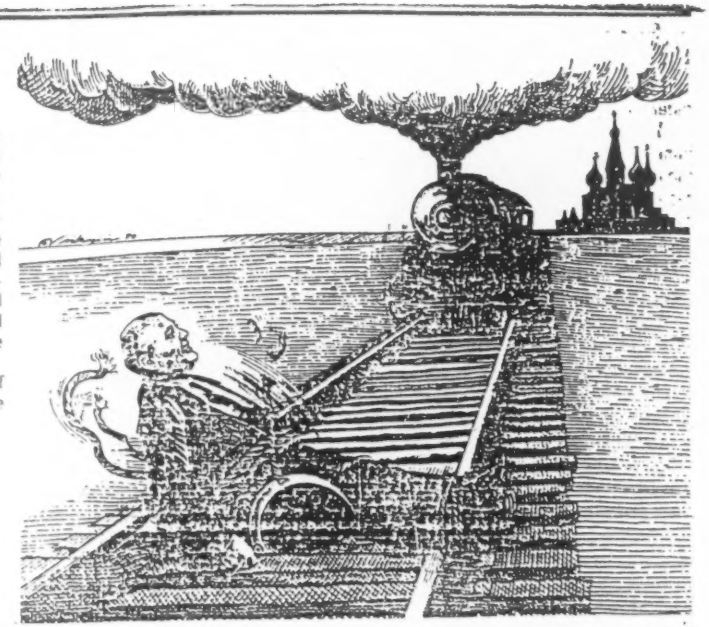
Both ministers are hot on the trail of Western wheeler-dealers, who they charge are seeking to corner the market for rubles, with which the foreigners will then buy up Soviet property and oil fields.

Politically there has also been a retreat. Some Soviet newspapers sound little different than they did in the Brezhnev era. Fortunately there are still some voices challenging Gorbachev and his retreat from his reforms. Those who hold out continue to attack Gorbachev's recent decisions, including his recent *ukaz*, which allows the KGB to inspect business transactions, as well as his decisions to send paratroops into Lithuania and the other dissident republics. These pro-reform voices continue to urge better relations with the West.

But the swing seems to be to the East and to many of the xenophobic Slavophile traditions. Increasingly strident voices inside the party and the army complain about the Soviet Union's surrender of East Germany, Eastern Europe. They are frightened by America's demonstration of technological powers in the Persian Gulf and are doing all they can to back off from some of the already-agreed-to Soviet commitments on conventional weapons, as well as on long-range strategic weapons.

How poignant it must be now for Gorbachev. He finds himself misunderstood and no longer appreciated. His friend Shevardnadze, the midwife of perestroika and glasnost, has resigned without notice. As he did so, he warned of the country's turn to dictatorship and the abandonment of their mutual dream, causes for which Gorbachev deservedly won the Nobel Prize.

Now Gorbachev faces a March 17 referendum on the future of the Soviet Union as a unified country. Given the decline and fall of his reform efforts, some also see it as a referendum on Gorbachev himself.



GARY VISKUPIC ILLUSTRATION © OP ART

Marshall I. Goldman is professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard University.

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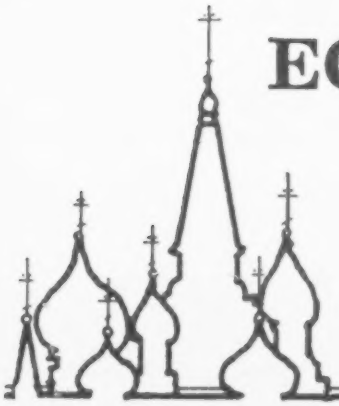

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.8
April 25, 1991

Soviet Trade Figures Show Slight Improvement

The trade balance of the Soviet Union for the first nine months of 1990 showed some slight improvement over the same period in 1989 (see table on the next page). The main reason for the improvement was a drop in imports of food products from Argentina, the United States, and Australia. This was offset to some extent by an increase in grain imports from Canada, but not enough to prevent the Soviet Union from reducing imports by some 400-500 million rubles.

At the same time the trade balance with Western Europe and Japan deteriorated slightly by about 100 million rubles. That is largely due to the fact that Soviet imports increased more than exports.

Presumably when the figures for the whole year are presented, the Soviet Union's exports will show an increase, at least in value. That is due to the fact that the price of oil went up after the invasion of Kuwait by Iraq. Even though the volume of Soviet petroleum exports has declined, the price per ton should have increased enough to provide them with some additional income.

While Soviet trade relations with Western Europe seem to have improved slightly from the Soviet Union's point of view, we will see in next month's newsletter that its trade relations with Eastern Europe have deteriorated significantly. In part the improvement with Western Europe may have come at the expense of Eastern Europe.

The Soviet Union Imposes Price Increases on April 2, 1991

Most of our readers are well aware of the fact that the Soviet Union increased prices at the retail level. Initially the Soviets had said that they were going to raise prices approximately 60%. However a look at the accompanying table suggests that the price increases were significantly higher. We have not included the prices of all commodities but those that we do show seem to be typical. In each instance the price was either doubled or tripled. Since these were essential consumer goods the implication is that the price increase may have been as high as two or threefold.

	In rubles, per kilo	
Product	Old Price	New price
Beef	2.00	7.00
Pork	1.90	5.30
Whole milk	0.28	0.50
Hard cheese	3.20	6.40
Eggs	0.90	1.80
Pike perch (frozen)	1.00	3.00
Sugar	0.85	2.00
Butter	1.70	3.40
Tea	9.60	18.00
Bread (rye)	0.12	0.48
Bread (wheat & rye)	0.24	0.61
Fabric (for suit)	12.80	30.00
Man's suit	107.00	245.00
Sewing machine	67.00	125.00
School notebook	0.02	0.10
Detergent	1.00	1.60
Refrigerator	250.00	430.00
Television (color)	755.00	1218.00
Television (b & w)	240.00	440.00
Radio	135.00	207.00

BALANCE OF TRADE - 1st NINE MONTHS OF 1983 - 1990 (Million Rubles)

	EXPORTS FROM THE USSR								IMPORTS TO THE USSR							
	1983	1984	1985	1986	1987	1988	1989	1990	1983	1984	1985	1986	1987	1988	1989	1990
Austria	413	563	603	415	268	328	284	422	622	656	615	638	428	497	670	807
Belgium	741	902	658	444	569	587	590	716	449	380	425	337	274	289	364	294
Great Brit.	802	974	833	943	1158	1253	1647	1244	495	587	563	407	394	415	679	755
Greece	343	416	408	156	176	252	215	77	128	87	104	46	32	61	88	126
Denmark	221	275	213	105	91	87	119	174	54	73	76	113	59	77	88	59
Spain	229	224	148	81	334	437	468	563	182	227	291	130	122	114	157	180
Italy	2152	2388	1799	1110	1271	1283	1384	1719	1119	983	970	1119	1250	1077	1106	1382
Neth.	1393	1243	770	425	591	488	662	1015	410	188	227	181	185	194	275	240
Norway	59	78	91	41	51	50	63	88	75	60	51	55	48	61	81	73
Germany	2498	3478	3026	2197	1780	1837	1791	1972	2685	2558	2400	2268	2037	2451	2826	3229
France	1768	1695	1554	1116	1093	1150	979	1179	1353	1246	1291	860	851	789	862	882
Switz.	394	290	244	235	239	281	333	121	274	293	384	360	404	636	707	755
Sweden	491	441	392	213	301	309	383	329	191	184	240	190	171	182	267	316
Japan	579	633	695	721	690	884	940	1006	1707	1534	1849	1755	1234	1464	1498	1455
Subtotal	12083	13600	11026	8202	8612	9226	9858	10625	9744	9056	9486	8459	7489	8307	9668	10553
Sub-Bal. of Trade									+2339	+4544	+1540	-257	+1123	+919	+190	+72
Argentina	19	20	44	51	31	16	54	57	1153	983	1114	172	374	331	516	310
U.S.A.	171	210	228	216	197	223	373	351	1037	1734	1927	997	747	1334	2292	1955
Canada	22	15	13	9	11	11	25	27	990	971	466	383	327	352	306	594
Australia	5	12	12	7	10	9	13	14	321	365	446	446	253	240	465	197
New Zealand	1	6	3	3	4	8	12	8	145	38	61	3	58	71	110	130
Brazil	85	93	48	25	43	14	16	28	429	396	300	200	190	138	185	132
Total	12386	13956	11374	8513	8908	9507	10351	11110	13819	13543	13800	10660	9438	10773	13542	13871
Balance of Trade									-1433	+413	-2426	-2147	-530	-1266	-3191	-2761
Finland	1744	1833	1588	1153	1292	1170	1252	1264	2043	1747	1914	1677	1530	1613	1556	1429
	14130	14789	12962	9666	10200	10677	11603	12374	15862	15290	15714	12337	10968	12386	15098	15300
									-1732	-501	-2752	-2671	-768	-1709	-3495	-2926

Valiutnyi Auction

Date	Rubles to 1 US dollar
Mar. 13, 1991	35.36
Feb. 13, 1991	29.69
Jan. 24, 1991	25.02
Jan. 8, 1991	22.85
Dec. 14, 1991	21.61
Nov. 30, 1991	20.94

FOREIGN EXCHANGE RATES

as of March 13, 1991
Quoted in rubles

	Official Rate
£100 Sterling	105.99
100 Aust. Sch.	5.14
100 D. Marks	36.07
100 D. Guilders	32.01
100 U.S. Dollars	57.23
100 Fr. Franc	10.62
1,000 Jap. ¥	4.14
10,000 It. Lire	4.84
100 Swiss Frs.	41.43
100 Nor. Kroner	9.27
1,000 Bel. Frs.	17.55
100 Sw. Kronor	9.81

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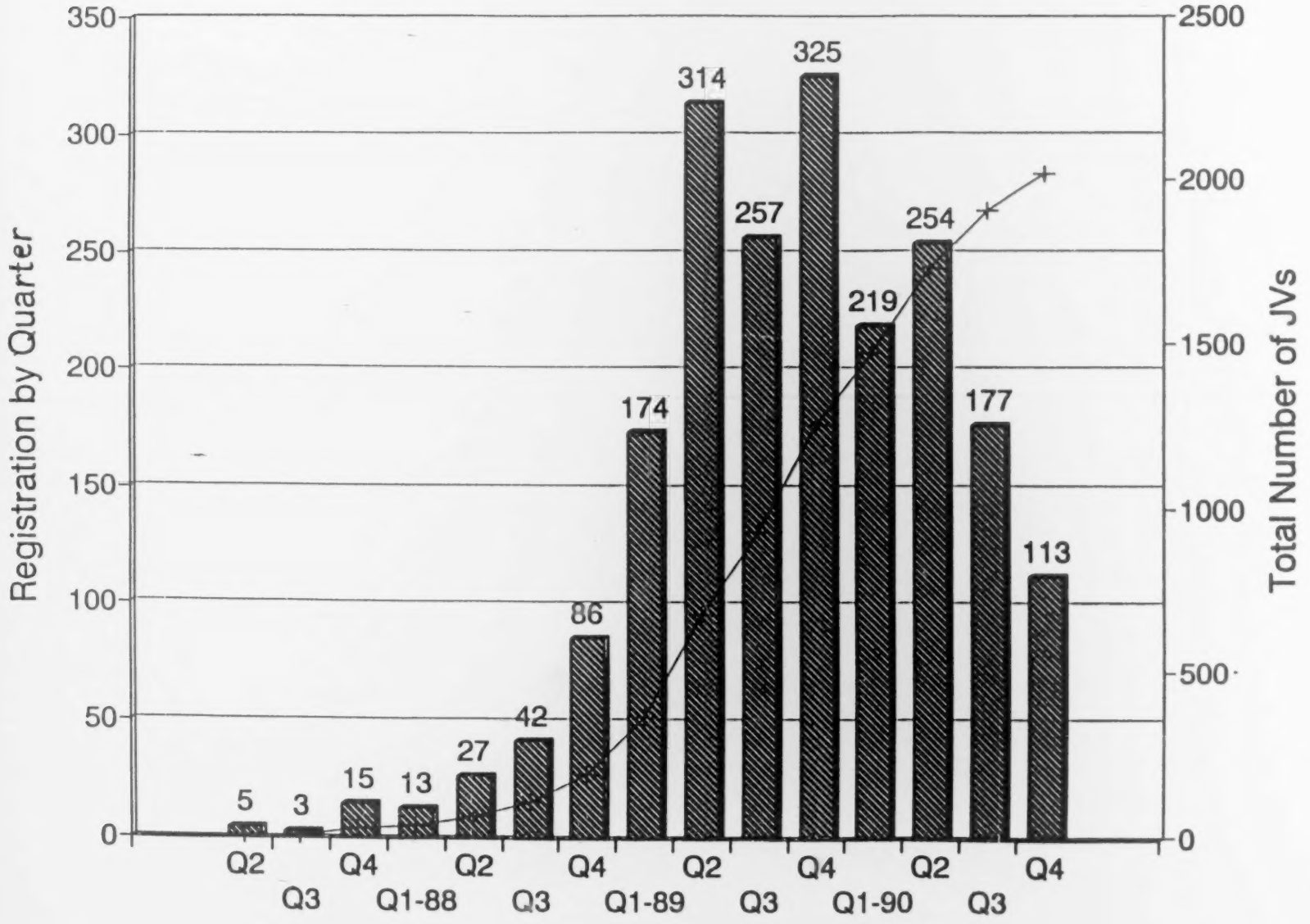

Birmingham University MNB

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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.9
May 15, 1991

Economic Results for the First Quarter of 1991

The news continues to be bleak. As a writer in *Pravda* put it when referring to the State Committee for Statistics, "If only there were just a single bright spot!" The gross national product is down eight percent and what is translated as generated national revenue is down by ten percent.

Of particular concern is the fact that output in agricultural enterprises, that is processed food, is down by 13% compared to a similar period in 1990. As a reporter in *Izvestiia* said, "It is the first time in recent years that such a level of decline has occurred." To offset this and also in anticipation of the price increase which occurred on April 2, in the second quarter, these Soviet officials have noted that reserves of food and consumer goods were depleted by over five billion rubles. In March alone they found it necessary to dig into the reserves and take out over three billion rubles worth of goods.

Much of the difficulty, of course, is due to strikes. In the first quarter of the year the number of days lost to strikes totalled 1,169,000. Most of that was divided evenly between the Ukraine and the Russian Republic and a major portion occurred in March when the miners went on strike.

Due to inflation, money incomes in the public rose by 36 billion rubles. At the same time, however, the budget revenues of the Soviet Union as a whole fell by 3/4. This, of course, is the cause of higher prices in the shops.

The Soviets also note that the sales of specific food products during the first quarter fell, thus the sale of meat, poultry, fish products, butter, cheese, vegetables, and fruit juices fell by 14-26%. In a similar fashion the quantity of potatoes that was sent to the trade network fell by 8%.

What is not known is whether or not these figures also include sales in the private or cooperative and underground networks. It is unclear whether the Soviets themselves know how inclusive these data are. In next month's report we hope to include more concrete data about production.

Soviet Foreign Trade in 1990

Soviet Foreign Trade was a source of continuing problems in 1990. For example, coal exports fell by 6%, oil exports fell by 15%, and exports of electricity fell by 8%. Cotton exports fell almost by half. One of the few export commodities that rose was natural gas. That increased 8%.

On the import side, the Soviets were able to reduce their grain imports by 14% but increased their imports of meat products by 62%. In that same effort to provide more for the market, vegetable imports rose 12% and potatoes rose 14%. Soap imports rose 5%. Reflecting the breakdown in the domestic production of pharmaceutical products, the Soviets increased their imports by 23%.

The problem seems to have continued

into 1991. The Soviets report that the overall volume of exports fell by 18% during the first quarter, which necessitated a drop of 45% in imports.

Soviet Balance of Trade with Eastern Europe for the First Nine Months of 1990

The Soviet trade balance with Eastern Europe during the first nine months of 1990 incurred a historic trade deficit. According to Soviet statistics, the trade deficit was more than 6 billion rubles. The highest it had been prior to that was slightly over 2 billion rubles and prior to 1988, the Soviets usually had a trade surplus.

The trade deficit was due almost entirely to a drop in Soviet exports. The Soviets exported less to every one of the East European members of what used to be the Council of Mutual Economic Assistance. For example exports to Poland and what was East Germany fell by over 1.3 billion rubles each. In contrast, imports were almost at the same level they had been in 1989. The main reason for the drop in exports is probably due to the fact that the Soviet Union reduced its shipments of petroleum to its former satellites. In addition it was also supposed to be charging hard currency for its exports and that probably also had an impact. As things stand now however the Soviet Union in effect is obtaining financing of its imports from the East European countries and that is bound to cause problems. As it is several of the East European countries did reduce their exports to the Soviet Union. The East Germans, Poles and Romanians exported more to the Soviet Union but the other countries apparently cut back.

This clearly is a time of stress in the relationship between the Soviets and the East Europeans.

FOREIGN EXCHANGE RATES
as of May 1, 1990
Quoted in rubles

	Official Rate	Commercial Rate
£100 Sterling	99.96	299.88
100 Aust. Sch.	4.83	14.49
100 D. Marks	33.87	101.61
100 D. Guilders	29.92	89.76
100 U.S. Dollars	59.98	179.94
100 Fr. Francs	10.07	30.21
1,000 Jap. ¥	4.33	12.99
10,000 It. Lire	4.57	13.71
100 Swiss Frs.	40.42	121.26
100 Nor. Kroner	8.67	26.01
1,000 Bel. Frs.	16.43	49.29
100 Sw. Kronor	9.50	28.50

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SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE 1ST NINE MONTHS OF 1982-1990

(in million rubles)

	Exports from U.S.S.R.									Imports to U.S.S.R.								
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1982	1983	1984	1985	1986	1987	1988	1989	1990
Bulgaria	3546	4141	4661	4788	4842	4644	4604	4327	4209	3245	3720	4122	4425	4442	4856	4885	5103	4753
Czecho-slovakia	3728	4270	4948	5002	5116	5032	4711	4583	3784	3513	4018	4422	4806	4778	5035	5039	4890	4525
GDR	4587	4992	5385	5619	5852	5582	5173	4859	3480	4270	4879	5576	5619	5228	5173	5168	5277	5887
Hungary	2711	2951	3298	3318	3486	3398	3265	3016	2667	2710	2957	3178	3513	3600	3766	3598	3701	3151
Poland	3581	3868	4450	4804	5091	4778	4592	4301	3086	2882	3485	3843	3960	4316	4355	4936	5204	5660
Romania	1013	1199	1352	1351	2062	1819	1766	1967	1918	1323	1280	1340	1657	1859	1729	1771	1085	1294
	19166	21421	24094	24882	26449	25253	24111	23053	19144	17933	20339	22481	23980	24223	24914	25397	25260	25270
Balance of Trade	+1283	+1082	+1613	+902	+2226	+339	-1286	-2207	-6126									

Soviets go for tax reform

By Alan Abouchar

For The Financial Post

BATTLES between titans make better copy than taxes, bookkeeping rules, and banking structure. And so much of the world's attention is focused on the personal conflict between Mikhail Gorbachev and Boris Yeltsin, even while many positive changes are taking place in the Soviet Union on a more prosaic plane.

One important area of change is the nation's tax structure, where the most recent innovation is a sales tax. The design, coverage, and revenue allocation are all thoroughly credible and have implications beyond the simple objective of raising revenue for the national budget.

First, although called a sales tax, it is actually a value-added tax — that is, a tax imposed only on the value created at each stage of production rather than a cumulative levy. The 5% imposed for material inputs into production is subtracted from the 5% due on the sales revenue of the retailer. This is the tax principle favored in most industrialized economies in the West.

Next, the tax revenues are to be distributed 70%-30% between the republics and the federal government. This is, apparently, by presidential decree rather than a part of the regulations adopted by the Council of Ministers. As such, it reflects Gorbachev's strong commitment to political and economic decentralization while he is still trying to keep the republics together.

Finally, the tax is imposed at the same rate on all goods and services, but with concern not to overburden low-income groups. Again this follows a long, albeit increasingly dying, Western tradition.

Thus, final food processing in restaurants is exempt from the tax (as are low-priced meals in many Canadian provinces and American states). Urban public transit, most entertainment and health-care products are also exempt, and there is partial exclusion of grain products — although the latter is insignificant compared with the recent 200% increases on retail bread prices. There is no tax on products produced for export.

ALAN ABOUCHAR *is professor of economics at the University of Toronto, and visiting scholar at the Harvard Russian Research Centre*

A tax of 5% will not eliminate the total republic and federal budgetary deficits, although it may permit a deficit reduction of 10%-15%. It is rather the flexibility and willingness to adapt that must be commended.

The new overall tax and income philosophy is also reflected in recent personal income tax rules. These recognize the possibility of very large earnings which may occur under the new business organization and ownership rules.

There is now a progressive rate that rises to a maximum of 60% at an annual income of 36,000 rubles — which is about 15 times the recent average annual wage. The previous progressive rate was designed to bear more heavily on independent income earners. The change demonstrates expectations about entrepreneurial potential while ensuring some limited degree of income re-distribution.

Serious dislocation

The new sales tax is not intended to replace the existing (hidden) turnover tax whose incidence has fallen overwhelmingly on consumer goods. This tax is so interwoven into the fabric of Soviet life that it would probably be impossible to revoke it without serious dislocation and extensive administrative supervision. For example, since it is levied at the wholesale stage, there could be no guarantee that eliminating it would lead manufacturers to reduce prices, a concern voiced in Canada when the manufacturers' sales tax was replaced by the goods and services tax.

On the other hand, the turnover tax is losing its importance as a source of budget revenue, falling from more than half of government revenue in earlier years to little more than a quarter in 1989.

Taxes are only one of the many areas where beneficial change is taking place in the Soviet Union, but largely unnoticed in the West. Accounting rules for costs and prices are being codified, banking is being modified along Western central and commercial bank lines, new property tax laws are being introduced.

The changes are being designed and executed by Soviet practitioners themselves, demonstrating a clear and not always recognized ability in this field. It would be tragic if the Soviet people neglected these positive efforts because of extensive focus on personality clashes between political leaders, or the deprecatory comments of foreign observers.

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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XV, No.10
June 15, 1991

ECONOMIC RESULTS FOR THE FIRST QUARTER OF 1991

(Million tons unless otherwise indicated)

Product	First 1/4 of 1991 Output	1991 as % of 1990
Electricity (bil. kw hrs)	480	101
Oil	132	91
Gas (mil. m^3)	211	100.3
Coal	166	89
Steel	154	96
Metal Cutting machine tools (1000 units)	38.5	95
Computer technology (billion rubles)	--	--
Tractors (1000 units)	124	91
Mineral Fertilizer	7.9	92
Pharmaceuticals (billion rubles)	2.0	105
Paper	1.5	94
Cement	32.7	95
Meat	2.6	86
Sausage products	.9	92
Edible fish products	1.4	91
Butter	.3	84
Cheese (1,000 tons)	164	86
Wholemilk products	7.9	93
Margarine products (million tons)	.3	83
Granulated sugar	1.2	79
Confectionary	1.4	96
Canned foods (bil. cans)	3.4	90
canned fruit/vegs	2.3	93
Mineral Water (million dekaliters)	28	75

Product	First 1/4 of 1991 Output	1991 as % of 1990
Footwear (mil. pairs)	187	89
Television sets (million units)	2.6	101
Refrigerators/freezers (million units)	1.7	100.4
Radios (million units)	2.2	95
Tape recorders (million units)	1.7	109
VCRs (thousands)	61.2	99.3
Sewing machines (thousands)	440	97
Washing machines [million units]	1.9	100.7
Vacuum cleaners (million units)	1.5	108
Furniture (bil. rubles)	--	--
Motorcycles (thousands)	255	97
Cars (thousands)	307	96
Paper (mil. tons)	1.5	94
Household soap (thousand tons)	163	82
Toilet soap (thousand tons)	77	91

Livestock Herds

(as of April 1st, million head)

	1990	1991
Cattle	93.3	89.4
out of which cows	28.1	27.4
Hogs	57.9	52.9
Sheep and goats	126.8	116.9

More About the Economic Results for the First Quarter

Because the mail from the Soviet Union has become more erratic than ever, we only now have received the April newspapers containing the information about the economic results for the first quarter of 1991. With this new data we can now provide a more detailed description of production figures including tables which were unavailable last month. What is notable is that the economy is in the midst of a steep decline. Electricity generation which used to rise at rates of 5 to 7% a year just barely increased by 1%. Natural gas output is just about constant from what it was during the first quarter of 1990 and as we noted earlier oil extraction is down by 9%. Steel production is down 8% and coal mining was down by 11% and the production of coke by 18%. Since the coal miners began their strike in early March, its impact was only felt for one third of the period. For the month of March alone, however, coal output fell by 18% which means that the marginal rate of decline increased significantly. Similarly coking coal production was down by 32% for the month of March. We also have some information now about April. Again as a consequence of the strike, the output of coal in April was down by 20%. Coking coal was down by almost 40%.

Not surprisingly the shortage of coal had an impact in other sectors of the economy. Thus while the output of rolled metals was down by 7% for the first quarter of the year, in the month of April it was down 18%. Fertilizer output in the chemical industry was down by 15% in April.

The downturn in April continued for other items, even those that were not effected by the coal mining strike. Thus oil extraction remained down by 9% from April 1990.

Apparently the price increases are also having an impact on production. Wholesale prices went up on January 1 and this apparently has led to a drop in demand for tractors. Tractor production as a consequence was down by 11% during the first four months of the year.

Equally and in some ways even more serious is the fact that the production of food products is also declining. For example for the first quarter meat production was down 12%, milk output down 10% and eggs down 8%. As the accompanying table shows, all livestocks herds are down. In the past it was unusual if the herd of one animal or another was down 2%. Now we find that the number of pigs has fallen by 9%. This means that it is going to be all the more difficult to start finding meat supplies from within the Soviet Union itself.

As a reflection of how serious conditions are, an article in *Izvestiia* reports that the deputy chairman of the state statistical commission predicts for 1991 as a whole overall production could be down as much 18 to 22%.

As if the drop in production was not serious enough, prices continued to increase. Wholesale prices which were not directly effected by the retail price increase on April 2, have also continued to climb. During the first quarter of 1991, overall wholesale prices rose by 83%. In April alone, however, they rose by 110%.

Finally the Soviet Union's foreign debt situation continued to deteriorate. Whereas the USSR had $15 billion of currency reserves in foreign banks in early 1990, by the end of the year, they had been "eaten up." Nor has there been any progress in paying back arrears on overdue debt. Since November 1990 it has fluctuated between $3 to $5 billion.

Putting the Engine on the Cart, or a Story about Tax: Comment on A. Abouchar's Article

By February 1991 it became evident that the Soviet Union's economy had collapsed. In view of this, the central government introduced

a sales tax to raise funds for the depleted budget. In the view of Professor A. Abouchar as reprinted in the May RRC Newsletter, the structure of this tax is similar to the value-added tax approved in Western Europe and widely discussed in the US.

I disagree with Abouchar's interpretation because: 1) the monetary system does not work; 2) the arbitrary prices do not reflect the true value of products; 3) all economic relations between enterprises, regions, republics are increasingly based on barter; 4) a sound system for tax collection is lacking (crucial to any tax). Besides, with the presence of heavy subsidies for so called "planned red-ink enterprises" it is unclear how a state can tax negative value added. It now seems that the main burden of this new tax is carried by new economic structures and the poorest strata of the population: the former because now only the new economic units create value which can be taxed, and the latter because the unique tax level does not eliminate the regressive nature of the tax in respect to income. The exclusion of some significant groups of goods from this tax makes the whole idea useless. The desire of the Russian (and maybe the central) government to introduce the value-added tax (as they see it) by the end of 1991, when the prices will be free in 1992 (in accordance with Pavlov's anti-crisis program) is also unrealistic.

The fact that the Soviet government copied something that already exists in the rest of the world is not sufficient reason to praise Prime Minister Valentin Pavlov and his team for attempts to make decisive economic steps. We first must know what the motivation for such a tax is and what the consequences will be.

It happens, as is usually the case that the Soviet system passed through the optimum (standstill) point like a pendulum. Several years ago no one in the Soviet Union wanted to hear about world economic experience to solve particular economic problems intrinsic to the market systems. Now the pure imitation of or reference to some policy proposed by anyone (especially if he represents a government) is sufficient to receive a standing ovation , either inside the country or from foreign observers. This applies not only to the sales tax proposal, but also the premature approval of an anti-monopoly law.

Blind imitation, especially in the same paradigm of total planning, has not brought and will not bring positive results. A hint of movement is not necessarily progress. To expect positive results from such measures as the sale tax is like slipping into day dreams and expecting that a dilapidated cart supplied with a new powerful engine will reach the next gasoline station without losing its old wheels somewhere along the road. The cart will not reach the station. And being broken on the road, it eliminates the need for a new engine. That is exactly what happened. The tax survived no longer than four months, and its funeral cost the Soviet population hundreds of bushels of rubles, the value of which now can only be measured on a scale.

Lev Gelman
Visiting Scholar, Russian Research Center

Alan Abouchar's Reply

The following replies to your main observations may be of interest:

1. It was never stated that elimination of the deficit would be the result or even was the objective of the new sales tax. (My rough estimate was a 10 - 15% reduction.) It is therefore inappropriate to fault it because the deficit would not have been eliminated.

2. Retraction of the tax does not prove that it was wrong in the first place. The retraction was part of the elimination of a parcel of totally injudiciously conceived retail price increases of up to several hundred percent. (Could anyone have though that this would eliminate the deficit or inflation?

Belorussia, incidentally, had just introduced a wage indexation law, and the rest of the country would assuredly have done likewise.) Eliminating the sales tax was part of the overall restriction. It is quite understandable -- to me, at any rate -- that administrators forced to back down the sledge-hammer approach to price reform would also call back even well-conceived laws like the new sales tax.

3. Numerous products which are disproportionately consumed by low-income groups were to be excluded from the tax. Coupled with the new extremely progressive marginal tax rates on incomes (which anticipate very high income levels which are presumably to result from more private activity), this represents a tax structure which is moving in the right direction. No one, incidentally, can ever prescribe with finality what the rates should be since there is no agreement on what personal welfare of individuals should be, so that it is only directions which can be sensibly talked about.

4. Of course, one wants prices to be meaningful. Isn't it time, though, that critics began to show us in what respects prices are incorrect? I urge you to this challenge. All we have been hearing for decades is that Marxism precludes the rationality for Soviet prices because they are based on cost production, which precludes consideration of utility and scarcity so that there is no interest and there is no reflection of demand. (The contradiction represented by this traditional view and the continual allusion to the existence of high subsidies caused by shortfalls of prices from production costs as proof of irrationality of prices seems to have escaped most discussion.) I have shown over the years that there is an interest-like effect from the wage system as it has developed, that demand is considered in the allocation of common costs, that capital is properly treated as part of the price base through a capital cost allowance. All these are in sharp contrast to the preachments of western microeconomics: there is no interest in its cost calculations (because we deal with physical rather than pecuniary relations); it has waived away common costs and price discrimination thereof; and depreciation of capital is abjured as an accountant's term. No one is arguing that Soviet prices are right all the time; I am saying that there is much less wrong than we customarily suppose and no one should rush headlong to change everything. Incidentally, the recent railroad rate reform was a seriously retrograde undertaking.

5. Of course the traditional banking system in non-functional as a true modern banking system. But legislative steps are being taken to improve it, including provision for a new commercial banking system (which is much more essential to business operation that the overly vaunted stock exchange) and fractional reserve banking. I've heard people object that "it's just law, just paper." My heavens! How would they have you begin?

Alan Abouchar, University of Toronto

FOREIGN EXCHANGE RATES
as of 29 May 1991
Quoted in rubles

	Official Rate	Commercial Rate
£100 Sterling	102.31	306.93
100 Aust. Sch.	4.93	14.79
100 D. Marks	34.70	104.10
100 D. Guilders	32.73	92.37
100 U.S. Dollars	58.85	176.55
100 Fr. Francs	10.18	30.54
1,000 Jap. ¥	4.26	12.78
10,000 It. Lire	4.66	13.98
100 Swiss Frs.	40.71	122.13
100 Nor. Kroner	8.90	26.70
1,000 Bel. Frs.	16.85	50.55
100 Sw. Kronor	9.67	29.01

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ECONOMIC NEWSLETTER

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Industrial Output and GNP for the First Five Months of 1991

Prime Minister Valentin Pavlov and some of his subordinates have been discussing industrial output in the Soviet Union. Pavlov, who had predicted that things would improve by the middle of the year, now says that he sees some improvement. He is particularly pleased by the fact that industrial output in May was off by the same percentage as it was in April. In other words the rate was down 5.6 or 6.6% in both months and that means that the rate of decline is no longer increasing.

Leonid Abalkin is somewhat less optimistic. He reports that national income was down 11% during the first five months of the year, that suggests a slight increase although not enough to indicate the accelerating pace of collapse that seemed to be evident earlier this year.

The reason for what seems to be a slowing of the decline is the fact that the coal miners went back to work. Thus while coal output was down to 88% of what it had been during the first five months of 1990, output in May was down only 93%. Oil output by the way was down 9% which is about the same as the drop in April. Pavlov takes special pleasure in suggesting that those who were predicting that the drop in GNP would equal 20% or more are likely to be proven wrong.

That of course does not mean that suddenly things are better. It is just that they do not seem to be quite as bad. Some goods by now are beginning to appear in the stores. That is not because supplies have been increased. In fact the food supplies seem to be down and the Soviets report that the area sown to grain is down 8 million hectares from what it was five years ago and the cattle herd is down 5 million head from five years ago. What has been happening is that because prices were raised so high in April, people simply have not been buying. By reducing demand the Soviets have solved one half of the supply problem in the country. But there are still complaints that because the benefits from the higher prices did not go to the suppliers inside the Soviet Union directly, the basic problem of increasing supply still has not been resolved.

New data indicate that one out of every three tons of grain the Soviets utilize comes from abroad. The same proportion holds for the meat consumed. Forty percent of the dried milk in the Soviet Union is imported. There are again concerns about the harvest for this coming year because there was a particularly severe drought in Kazakhstan, the Caucasus and the Ural mountains. Based on early estimates, the grain harvest this year is likely to total only 180-190 million tons--down from 240 million tons last year.

All of this of course is made more complicated by the fact that the budget continues to be out of balance. Abalkin estimates that the combined union and republic deficits total 210 to 242 billion rubles versus the planned deficit of 52 billion rubles. Pavlov, the Prime Minister, reports now that estimates show that the crackdown on the

sale of alcohol resulted in a loss of 200 billion rubles in tax revenues that helped to set off the budget crisis and the subsequent inflation.

The Soviet Union not surprisingly continues to have problems with its foreign trade. Overall foreign trade is down by about 1/3 from what it was last year. The East European countries in particular have apparently been very badly hurt. Exports from the Soviet Union are down 16% whereas its imports are down 45%. Most of those suppliers of imports to the Soviet Union were in Eastern Europe and that helps to explain why some of their economic problems have now become more serious. The slash in imports was designed in part to reduce the size of the foreign debt. Pavlov reports that the size of the Soviet hard currency debt fell from 34 billion rubles in January 1990 to 30 billion rubles in May 1991. The short term debt he reports has fallen from 10 billion rubles to 1 billion rubles in the same period. Nonetheless he also acknowledges that the Soviet Union is in arrears by 2.5 billion rubles as of June 1. Elimination of the arrears is complicated by the fact that because of problems at home in the domestic industry, oil exports are down 45% for the first five months and refined oil products exports were down 54%.

Whatever Pavlov's view, the trends on the foreign exchange markets suggest that things have continued to deteriorate. At an auction held in the Soviet Union on June 18, the ruble-dollar exchange rate required 42 rubles to purchase one dollar. It is the first time the exchange rate which for tourists is set officially at about 27 rubles per dollar rose to over 40 rubles.

The Soviets have also released some miscellaneous figures that might be of interest to our readers. In 1990, 1770 enterprises had strikes. That resulted in an average of 40,000 people a day out on strike. Pavlov also reports that military expenditures as a percentage of GNP in 1988 were 14%. Heretofore Gorbachev has insisted they were no more than 7%.

FOREIGN EXCHANGE RATES
as of July 3, 1991
Quoted in rubles

	Official Rate	Commercial Rate
£100 Sterling	98.71	296.13
100 Aust. Sch.	4.77	14.31
100 D. Marks	33.56	100.68
100 D. Guilders	29.81	89.43
100 U.S. Dollars	60.80	182.40
100 Fr. Francs	9.91	29.73
1,000 Jap. Y	4.41	13.23
10,000 It. Lire	4.52	13.56
100 Swiss Frs.	39.06	117.18
100 Nor. Kroner	8.62	25.86
1,000 Bel. Frs.	16.32	48.96
100 Sw. Kronor	9.30	27.90

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. . . But Don't Toss Money at Problems

By MARSHALL I. GOLDMAN

SINCE 1989, Mikhail S. Gorbachev has embraced — only to discard — about 10 economic reform plans. Unlike earlier plans, the latest one includes a role for the West. But it has evoked severe criticism in — and out — of the Soviet Union. As Oleg Bogomolov, once one of Mr. Gorbachev's closest advisers, put it, why help "the Soviet Union's most unpopular politician"? Such help, he warned, "was essentially support for the Communist party, the military-industrial complex and the K.G.B."

Sometimes throwing money at a problem may be counterproductive. This may be one of those times. Offering billions a year in aid to Mr. Gorbachev would probably hamper market reform because the Soviet Union cannot absorb such large sums productively. Investment from the foreign private sector would be more productive.

Indeed, the odds are that any influx of loans and grants would just be squandered. The Soviet Union has no wholesale markets; a disproportionately large share of its industry is unprofitable, designed for the production of armaments; politicians still haven't decided how to divide power between the republics and the central Government, and Mr. Gorbachev is unpopular at home.

As the London summit meeting approaches, Mr. Gorbachev seems to have reduced the scope of his funding requests. Even still, if the West were to provide aid to the Soviet Union, that would not be like helping postwar France and Germany, or even Poland in 1990: the issue then was reviving what were once viable market systems. In the Soviet Union, the bulk of industrial enterprises should be abandoned.

Unless the Soviet Union takes several steps, even limited support would be wasted.

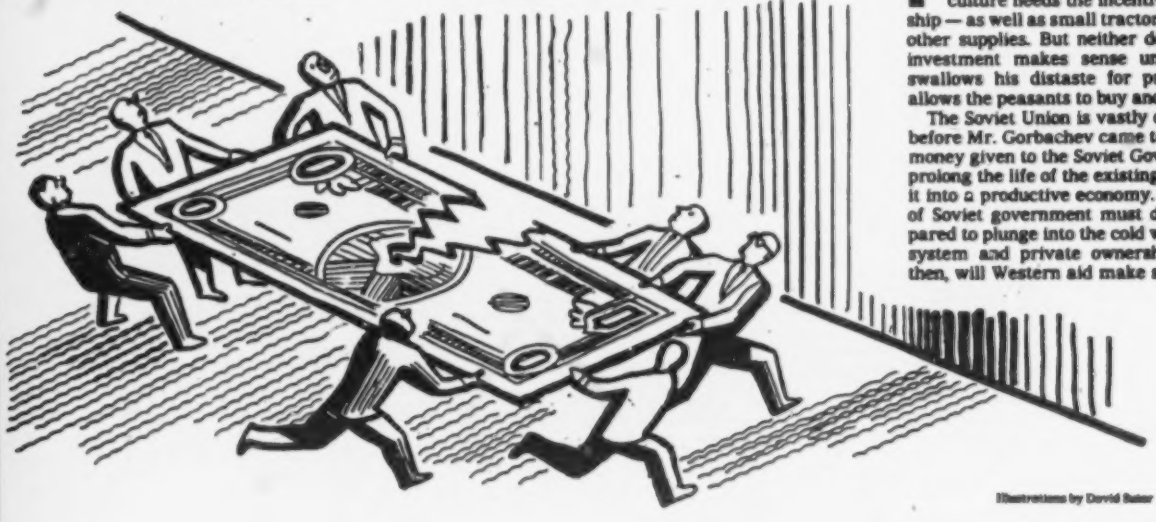
First, Soviet authorities must decide if they want foreign investors and if they can tolerate profit-making by a foreign partner. Chevron and Amoco, for example, offered to invest heavily in oil exploration and extraction projects. Imagine the shock last month when Chevron found itself the target of attacks in the Soviet press, criticized for, among other things, putting in $21 million, against nearly $1 billion from the Soviet partner. Other investors, even McDonald's, have been attacked. Operating in the Soviet Union is not easy.

Soviet authorities must then also decide who has the right to sign foreign contracts and at what level of government. It does not inspire confidence when agreements reached in Moscow are rescinded at the republic level. If officials in the republics and Moscow cannot decide how to work with private investors, it is unlikely that they will use government or World Bank funding effectively.

FINALLY, the Soviet Union must decide what it wants to do about agriculture. Soviet agriculture needs the incentive of private ownership — as well as small tractors, pickup trucks and other supplies. But neither domestic nor foreign investment makes sense until Mr. Gorbachev swallows his distaste for private farming and allows the peasants to buy and sell their own land.

The Soviet Union is vastly different than it was before Mr. Gorbachev came to power. But foreign money given to the Soviet Government is likely to prolong the life of the existing system, not change it into a productive economy. The different levels of Soviet government must decide they are prepared to plunge into the cold waters of the market system and private ownership. Then, and only then, will Western aid make sense. ■

Marshall I. Goldman is professor of economics at Wellesley College and author of the forthcoming "What Went Wrong With Perestroika."



Illustrations by David Suter

A Voice From **Belgrade**

Yugoslavia's Trap of Ethnic Confrontation

By ALEKSA DJILAS

BELGRADE, Yugoslavia

THE scope of last week's violence in Yugoslavia astonished many people, who found it hard to believe that friendly and cheerful Yugoslavs seemed to be beginning a full-scale civil war. But some were not surprised. Tanks rolling, soldiers and civilians killed, military officers deserting, state authorities paralyzed, Yugoslav diplomats assessing events differently depending on the ethnic group they belonged to — this is exactly what numerous students of Yugoslav affairs have been expecting for a number of years.

They consider Yugoslavs to be people with weak political institutions and with few liberal democratic traditions — negotiation, compromise and gradual reform having been only a peripheral part of Yugoslav political culture. To them, Yugoslavs seem more passionate than reasonable, incapable of controlling ethnic pride and prone to consider success in ethnic rivalry more important than any gain from cooperation. While ready to die for freedom in war, Yugoslavs appear to these critics to be ill at ease with all those little liberties that a civilized political community is based on.

Judging Yugoslavs in such a way is unsparing. But it is also correct.

When the different South Slav (Yugoslav) groups united as one country in 1918, they were in many respects one nation. Their ethnic characteristics and languages were identical or very similar. And these groups were much more different from any of the nations neighboring Yugoslavia than from each other. The idea of Yugoslav unity was strong, having been championed by many enlightened 19th-century South Slav intellectuals.

Yet the various groups also had separate national ideologies based on collective historical memories and state traditions, some going back to medieval times, that were often mixed with legends and myths. Like elsewhere in Central and Eastern Europe there was a strong tendency to glorify one's own group as heroic and creative and to see others in stereotypes of cowardice and backwardness.

Political traditions before unification, though containing strong elements of liberalism, were primarily authoritarian. This strengthened the tendency of national movements toward expansion and hegemony over those who were not of the same ethnic group. In the years between the world wars, liberal democratic political institutions never became deeply rooted and could not harmonize ethnic interests to create one Yugoslav state loyalty.

The official ideology of unity was supported primarily by conservative and centralist Serbian institutions: the monarchy, the Army, the Serbian Orthodox Church and Serbian political parties. This Serbian predominance exacerbated national conflicts, and was particularly resented by Croats, the second largest nation. Serbian-Croatian conflict choked the development of liberal democratic political institutions and finally paralyzed the working of the Parliament. This allowed the authoritarian forces, especially the crown, to limit or suppress parliamentary government.

> Megalomania, paranoia and 'pseudo-romantic nationalist kitsch' undermine unity.

Croatian and Serbian national ideologues, and to a lesser extent those of other groups, struggled intransigently for the maximum enlargement of national power. All else — economy, culture, political institutions — was of importance only to the extent that it might increase that power. The leaders of the groups often saw themselves as having pseudo-religious national missions, and refused to make compromises, except as temporary expedients. They spoke of the tragic and heroic destiny of their groups in tones of morbid self-pity for sufferings imagined as well as real. Chauvinistic pride was combined with a desire for revenge.

Support for Yugoslav unity declined in the interwar period partly because it was perceived by many non-Serbs as serving solely the interests of the right-wing Serbian establishment. But an even more important reason was the crisis of liberal-democratic political culture and institutions. On those rare occasions when the various political parties fought for the rights of individuals, for free speech, for the power of Parliament, they had no difficulty in reaching compromises about ethnic issues and accepting the common Yugoslav state.

After World War II, the West supported Tito's authoritarian rule and that of his successors, partly because this seemed a barrier to destructive nationalism. Yet the West failed to see that Tito and the Communists were not creating lasting political institutions through which different groups might resolve their conflicts, nor were they establishing a climate of tolerance and compromise, without which ethnic ideologies cannot be contained.

The Communists, as it is sometimes said in Yugoslavia, succeeded only in conquering, not in convincing. Simultaneously with fighting German and Italian occupiers in 1941-1945, they fought and defeated their opponents in a civil war. Many who fought the Communists then were nationalistic extremists who perpetrated massacres of other groups. But under the monolithic structure of postwar Communist power, national ideologies were preserved in their intransigent prewar form.

During 1990, free elections were held for the first time since 1927. But the fact that four republics are now ruled by non-Communists and two by reformed Communists is of little importance. All six regimes are primarily nationalistic. While they allow more freedom than the Communists did, they still could not be called liberal democratic. In the name of unity and supposedly national goals, they are limiting the media's freedom, restricting the opposition, and preserving state control over the economy.

These regimes glorify the history of their groups and engage in chauvinistic propaganda against the others. Their megalomania is inevitably accompanied by paranoid delusions about omnipresent enemies and worldwide conspiracies. Especially in Croatia and Serbia, they demand territories of other republics where members of their groups live, disregarding the fact that these people are often a minority. In culture, they promote pseudo-romantic nationalist kitsch while suppressing the cultural rights of minorities. Drunk with power, they are hastily creating paramilitary forces, asking few questions about the character of the volunteers.

Communism failed to create, or even created the very opposite of, a free individual, capable of thinking critically about himself and his group. And such an individual is the only barrier to nationalist extremism. That there are so few such people is the main reason that Yugoslavia is disintegrating and that there may even be — some say there already is — a civil war. But if history proves merciful toward Yugoslavs, and efforts at arranging a lasting cease-fire succeed, this may allow them the time to develop genuine liberal democracy and the self-critical spirit that is its corollary. Perhaps then they could not only avoid civil war but also preserve Yugoslav unity.

Aleksa Djilas is a Yugoslav historian and sociologist and author of "The Contested Country: Yugoslav Unity and Communist Revolution 1919-1953."

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

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Some Signs of Improvement, More Signs of Deterioration

Soviet statistical authorities suggest that Prime Minister Valentin Pavlov may have been correct when he argued that the rate of decline of the Soviet economy seems to have levelled off. After the price increases of April 2 and more importantly after the agreement of the nine different republics with Gorbachev in that same month and the end of the coal miners' strike, economic conditions seem to have stabilized a bit. That does not mean that they are improving, only that the decline is constant. There is some dispute about that butit does seem to be the general case. Soviet newspapers report that during the first six months of 1991, gross national product fell by 10% and national income by 12%. Industrial production was reported to have dropped by only 6% yet individual industries seem to have suffered considerably more largely because of the coal miners' strike. Moreover the chemical and timber industries filled only one half of their delivery commitments, the metallurgical industry did not fill 46% of its commitments and the energy complex was 34% behind last year. Other Soviet economists report that because of the echo effects from the coal miners' strike, the problems have continued into the third quarter of the year. During the first six months of the year for example there were production disruptions at over 1000 enterprises each month. Not surprisingly specific industries suffered significant problems. Oil output was down 28 million tons or about 10% of output and coal extraction was down by 41 million tons. Steel production was down as much as 12%.

Extrapolating from these conditions, some Soviet statisticians have predicted that gross national income will be down by 15% before the end of the year. In just the last half of the year, it is predicted that industrial production will fall by 9% compared to 1990 and national income will drop by 17% suggesting that the rate of decline is still accelerating.

There are three factors causing this problem. One: according to Soviet officials the deterioration in the supply of fuel and energy resources has hurt badly. Two: there has been a drastic reduction of imports because of a shortage of hard currency. Three: there has also been a decline in investment activities and a corresponding increase in the amount of uncompleted construction. This has always been a perennial problem for the Soviet Union.

There seems to be real panic in the foreign trade sector. Officials report that during the first half of 1991, Soviet imports and exports fell 37% from what they had been the year before. Exports were down 43% and imports into the Soviet Union were down 48%. According to one report, exports of oil products fell by 52%. The Council of Mutual Economic Assistance was particularly hard hit. Trade between the Soviet Union and Eastern Europe and the other members of COMECON was down by 50%.

There is also some concern about joint

ventures. Although 3400 joint ventures were registered as of April 1, 1991, only 948 were actually operating. Moreover, there are more reports of western firms giving up. According to one western businessman, even Dresser Industries has now found it too difficult to operate. That seems particularly ironic because the Chairman of Dresser has been Chairman of the U.S.-Soviet Trade and Economic Council. That is a reflection of how serious the problems have become. In the meantime Chevron oil industry continues to defend itself against attacks in the Soviet press about the operation of Western companies inside the Soviet Union.

At the same time the mafia continues to increase its hold. Reacting to the growing influence of the mafia, Soviet authorities closed down the Rizhski market as a site for cooperative sales. The claim was that the cooperatives had been infiltrated entirely by the mafia. What this has done, however, has simply driven traders underground. It has not destroyed the market.

There are also some serious concerns about the harvest. While most Soviet authorities expect the harvest to reach 195 million tons, there are some who say that it will total only 180 million tons. Reflecting these predictions, Muscovites with dachas report that when their homes are broken into, the thieves no longer focus just on the theft of consumer electronic products. Now they steal food and in some cases even rip the tomato plants out of the ground.

FOREIGN EXCHANGE RATES
as of July 24, 1991
Quoted in rubles

	Official Rate	Commercial Rate	Tourist Rate
£100 Sterling	100.54	301.62	5377.60
100 Aust. Sch.	4.85	14.55	259.49
100 D. Marks	34.02	102.06	1819.63
100 D. Guilders	30.23	90.69	1616.98
100 U.S. Dollars	59.83	179.49	3200.00
100 Fr. Francs	10.05	30.15	537.74
1,000 Jap. ¥	4.38	13.14	234.50
10,000 It. Lire	4.58	13.74	245.16
100 Swiss Frs.	39.53	118.59	2114.30
100 Nor. Kroner	8.77	26.31	468.86
1,000 Bel. Frs.	16.56	49.68	885.70
100 Sw. Kronor	9.44	28.32	504.97

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MOSCOW NEWS weekly No. 23, 1991

Too much too soon

By Marshall I. GOLDMAN, US political scientist

When I first heard about the grand proposal to swap as much as $150 billion from the West for far-reaching Soviet economic, political and military reforms, I thought immediately of the old story about the sympathetic but often unrealistic matchmaker. She was asked by a desperate peasant to find a husband for his ugly daughter. Not only was she poor but she was also blind in one eye and not very smart. After some hesitation the matchmaker had an inspiration. "Have I got a match," she cried. "David Rockefeller in New York has a young unmarried son your daughter's age. He is rich, handsome and smart. Do you think your daughter would be interested?" "Certainly," responded the peasant. "Well, that's half the match," sighed the matchmaker.

Unfortunately, neither half of the present proposed match is so easy. Suggesting that anything like $15 billion a year, much less $30 billion a year for five years, can be found to underpin the Soviet Union is irresponsible. The United States is preoccupied with the recession and its own poor. We have begun to reduce our military forces, but already there are many claimants for what small sums have been released so far. We ourselves had to solicit help to pay for the Persian Gulf war.

Nor is the situation much better elsewhere. The West Germans have already committed themselves to provide $34 billion to the Soviet Union and it is hard to see how they can come up with much more until they have finished reabsorbing East Germany. The Japanese who normally might be expected to bear a major share are unwilling to participate until the Soviet Union yields the four northern islands.

Let's assume that the West does ultimately agree to put up some money. What will the West expect for its money and how should it be used?

Before the West provides any significant funding for the Soviet Union, there will have to be concrete evidence that the Soviet Union has actually embarked on the implementation of its market reforms, family farming, privatization, creation of private banks, freely fluctuating prices, convertibility... This will be like convincing Rockefeller's son to agree to the marriage.

By my count, this revived anti-crisis program being offered by Primakov and Yavlinsky is the seventh or eighth such scheme that has been proposed by Soviet economists since November 1989. Moreover, Gorbachev seems to have been supportive of most of these past proposals at least initially, but, then he always seems to back away. What is there about the current plan that will lead Gorbachev and Pavlov to push it through, especially when both of them have attacked the notion of private ownership of land and Pavlov seems so suspicious of foreign involvement in the Soviet economy?

The comparison is also made to the impact the Marshall Plan support had on Western Europe, especially West Germany. But those were very different circumstances. Not only were the Europeans required to come up with a detailed plan for the use of the money, but they were building on a long-standing market and infrastructure.

The challenge is very different in the Soviet Union. It would be a waste of foreign money which ultimately has to be repaid to attempt to build a brand new competitive industrial structure. That was tried in the 1970s when the Soviet Union earned over $180 billion from oil exports and used much of it to import whole factories. Today there is virtually nothing to show for it.

What is needed instead are investments which will help unleash the Soviet Union's natural wealth in a rational and natural way, generate a quick payoff and increase productivity of goods required by consumers inside the Soviet Union and, where possible, export as well. That rules out money for machine building and heavy industry. At this point the Soviet Union will have to build its industry from the bottom up—not the top down as it has tried to do in the past.

I would spend the money on farmers—to help them make farming profitable. It is also essential to set up a network for servicing all forms of equipment, particularly farm equipment. It would also make sense to provide small-scale food processing facilities.

There must also be a role for private foreign investment to play. For example, Western oil companies are eager to share in the development of Soviet deposits—not only in new fields but the enhanced recovery of oil from existing fields. This requires, however, a decision within the Soviet Union as to who it is—the Center, the Republics, the workers—that actually has the power to sign such contracts.

Can the peasant really speak for his daughter? Can the matchmaker speak for Rockefeller's son? Just as there can be no marriage, so there can be no effective set of loans and reforms until we on the outside know who on the inside not only has the authority but the power and the determination to bring about these far-reaching and politically explosive changes.

THE BOSTON SUNDAY GLOBE • AUGUST 4, 1991

THE WORLD

What path now for the USSR?

A death symbolizes new era

By Adam B. Ulam

With their country on the verge of political chaos and in the grip of an ever-worsening economic crisis, it is unlikely that most Soviet newspaper readers would have paid attention to a brief obituary notice on July 27, announcing the demise of Lazar Moiseyevich Kaganovich, at the age of 97. Those who recognized the name must have been astonished: Hadn't the man been dead for years? In any case, a figure from the distant past.

And, indeed, Kaganovich's political death took place a long time ago, in 1957, when he and some other potentates, unsuccessful in their plot against Nikita Khrushchev, were stripped of their party and government posts. Thrown out of the Communist Party in 1961, he had become an "unperson," his name reappearing in the press only briefly, when glasnost began to throw new and glaring light on the crimes of the Stalin era.

Those with longer memories must have reflected that there was something both symbolical and ironic in the death of one of Stalin's principal henchmen just as Moscow was preparing for the visit of the president of the United States. Here was Gorbachev trying to chart a new course for Soviet society and to remove the last vestiges of the tyrannical system of which the deceased had been one of the main archi-

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Adam B. Ulam is director of Harvard's Russian Research Center.

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tects. And yet Kaganovich, publicly exposed as having been an accomplice in the death of countless innocent people, was allowed to live unrepentant and unpunished to great age and to die peacefully in his bed. Gorbachev has been working frantically to preserve the unity of the Soviet state and to retain for it the aura of a superpower. Kaganovich's name is associated with a period when it would have been inconceivable for a Soviet citizen, no matter what his nationality, to question that unity, and when no one had to be convinced that the USSR was a superpower – the world stood in awe of the monolithic giant ruled by the Kremlin.

How poignant in this connection was a feature of President Bush's visit last week to the Soviet Union, his side trip to Kiev, where he addressed the Ukrainian republic's parliament. Much as Washington has been at pains to bolster Gorbachev's position internationally and domestically, this trip was a clear sign that the United States was hedging its bets. Preservation of the Soviet empire's territorial integrity is currently the most agonizing problem confronting Gorbachev. And here was his guest, the president of the United States, virtually signaling that whatever the future association of the Ukraine with Moscow (and by implication this would apply to other republics), it was up to its people to define the nature of that relationship, with, presumably, even full independence not precluded.

How fantastically improbable such apparent intrusion into Soviet domestic affairs by a foreign statesman would have appeared only a few years ago! And some of those reading about Kaganovich's death must have recalled that between 1925 and 1930 he had been Stalin's satrap over the Ukraine. As such, he suppressed ruthlessly any manifestations of Ukrainian nationalism, not tolerating even the most moderate pleas for political or even cultural autonomy for this second most populous republic and nation of the Soviet Union.

There are other and instructive contrasts between Kaganovich's life record and the present political situation in the Soviet Union. After his Ukraine stint, he became the boss of Moscow (where he started young Khrushchev, his future nemesis, on his political career), but also Stalin's principal deputy in overall Communist Party affairs. Again, he faithfully followed his master's orders, purging the party membership mercilessly, not only of Stalin's past and potential opponents, but also of anyone found wanting in slavish worship of the "genius Leader of progressive mankind." Lazar Moiseyevich went on serving Stalin unflinchingly, even when the great terror of the late '30s, of which he was one of the main executors, claimed the lives of his two brothers, and insofar as we know, he did not even try to intercede for them. It was perhaps this exemplary and inhuman servility that kept Kaganovich on the Politburo when others replaced him among Stalin's principal lieutenants and the despot himself grew increasingly hostile toward Jews. After Stalin's death Kaganovich could not countenance Khrushchev's very modest attempts at liberalizing the regime. So he and some others of the dead tyrant's erstwhile "comrades in arms" plotted and lost.

This grim tale, apart from its inherent pathos, throws light on the vicissitudes of perestroika, and on Gorbachev's failure, at least up to date, to create a viable political system for his country. Bent as he was upon reform once he became general secretary in 1985, Gorbachev still had to work with the material he had at hand – the Communist Party. It was his hope that that party could be liberalized and made an instrument of progress toward, if not full democracy, then a much freer and dynamic society. But the Communist Party has proved unable to function as an instrument of progress. For all the years that passed since Stalin's death, the party still has retained many characteristics implanted in it by the tyrant and his lieutenants, such as Kaganovich. Its membership had grown used to obeying orders but was incapable of becoming a body where there was a true political dialogue, whether within itself or with society. And then glasnost bared the frightful details of the party's and the regime's past. To the mass of Soviet citizens, including many rank-and-file party members, the very term "Communist" became opprobrious, epitomizing the horrors of Stalinism and the corruption and stagnation of the Brezhnev era, all that has been shameful and debilitating in their nation's history, all that stands in the way of the country's regeneration.

Yet, in the face of such general revulsion, and though partly sharing it himself, Gorbachev has been unwilling to break decisively with the past. Unlike his rival Boris Yeltsin (who thereby has gained vast popularity), he has been unable to repudiate the party and give up the forlorn hope that it still could be fitted into perestroika. It is not only a sentimental attachment to the organization within which he grew and which brought him eminence that has kept him on the vacillating course, trying to combine the irreconcilables – the Communist Party and the democracy. It has also been the realization that by its very success in destroying everything else that had been vital in the country's political life, the Communist Party had become the glue that held the multinational Soviet Union together. "What will you do without me?" Stalin is reputed to have said to his lieutenants shortly before his death. As of the moment, Mikhail Gorbachev is still seeking an answer to a variant of this question: What can take the place of Stalin's legacy – the Communist Party of the Soviet Union – and become the foundation of a new and united community of Soviet republics?

To a Westerner as well as to many Soviet people, one thing would seem clear: The party is beyond redemption. Long ago, it lost its moral authority, and in the last few years much of its power. It has become a beached whale. For all that the party's membership is dwindling, it still poisons Soviet politics and thus hampers the creation of a healthy pluralist society. In more prosaic terms, the erstwhile party of Lenin and Stalin has come to resemble an association of job holders held together not so much by a shared faith in the shopworn dogmas of Marxism-Leninism, as by their reluctance to lose their privileges and perquisites.

Bush's visit was thus yet another sign of the Soviet leadership's determination (and on this Gorbachev and Yeltsin are in agreement) to break with the past and to eschew the old policy of expansionism and posturing on the international scene, a policy through which the Kremlin had hoped to mask its internal weaknesses and oppression. For the current leaders, the country's future lies alongside that of the democracies. But on this count, the death of an old Bolshevik and Stalin's servitor provided a jarring reminder that much he had represented has as yet not been eliminated from Soviet life. Soviet domestic policies have up to now not caught up with the logic of the Kremlin's new foreign policy, and therein lies the great challenge confronting Gorbachev and his band of reformers.

THE MUSE OF THE WEEK IN REVIEW

Red Squaring the circle

Russians, tired of pulling their belts in
And grown glassy-eyed with glasnost,
Had cast a warm eye upon Yeltsin,
Which left Gorbachev at the post.

But Garby remaining unmoved,
Was able to get in his licks
With reforms that summarily proved
One can teach old dogmas new tricks.

Now he's breasted the summit and severed
The deal that he's finally made
For the USSR's new "most favored
Nation" in USA trade.

While the Ukraine's been heaping abuse
On Gorbachev's notable charms,
Bush plied him with iced-vodka mousse
And toasted their "Farewell to Arms."

Both felt globally gilded with kudos,
As they strode beneath St. Basil's dome
Ignoring the daily renewed dose
Of problems they've messed up at home.

FELICIA LAMPORT

U2030-1

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XVI, No.1
September 20, 1991

The Economic Crisis Continues

In July the then prime minister Valentin Pavlov argued that the economic situation during the first six months of the year had been stabilized, or at least there was no acceleration in the rate of decline. Since then things have obviously changed dramatically. Despite his claims, the decline did seem to intensify, at least in some sectors in July, and, based on some preliminary reports, that seemed to continue during the month of August. The attempted coup in August has undoubtedly had a very serious impact on economic productivity but those figures will not show up for at least another month or two. In addition, of course, Valentin Pavlov now sits in jail which dramatizes how serious conditions have become.

The figures for July show a continuing drop in output. While oil production fell by about the same amount as it did in June, there are estimates that for the year as a whole oil production will fall by about 10%, from 551 million tons (11 million barrels a day) to as little as 490 to 500 million tons (10 million tons a day). There are increasing reports that one half of the funds needed for maintenance in the oil fields and on the pipeline were withheld. As a consequence there is greater and greater concern about the ability of the pipelines to deliver the oil that has been extracted. The same kinds of concerns hold for the natural gas industry, although natural gas output has risen about 1%.

The energy sector, except for natural gas, however, continues to suffer. Coal output is declining at about 11% a year. Coking coal is down as much as 20%. In addition in some parts of the country there have been significant cutbacks in electrical output, particularly in the Ukraine where nuclear energy was previously planned as an important source of energy. As it is, electrical output for the country as a whole is down about 2% for the first seven months of 1991.

The output of household goods has also fallen. The output of soap is down 17-20% and cigarette production is down 12%. In addition there seem to be serious shortages of food. In part that is a consequence of the continuing inflation which takes place. Prices have gone up twofold during the first seven months of 1991 compared to 1990.

In the meantime there is continuing concern about the harvest. Reports have appeared that the peasants are holding back on the delivery of grain. The situation is not helped by the shortage of fuel or by the fact that tractor output for the year is down 13%. As a stimulus to the peasants, agricultural officials have agreed to give the peasants payments in hard currency after 20 million tons of grain were delivered. Last year hard currency was only given after 40 million tons of grain were delivered. Of course the question remains as to who is in charge at the center given the fact that now power has been distributed among the republics. Officials representing the union have requested $5.9 billion worth of agricultural support from the

European Economic Community. There are continuing concerns, however, about whether or not the republics and the union will be able to repay their debts. It is unclear as the union disintegrates who is responsible for which share of the debt. One estimate reported by Soviet economists is that the foreign debt in August totalled $65 billion and that servicing that debt required 40% of the country's hard currency proceeds. Another economist estimated that servicing that debt consumes $15 billion a year. There are also continuing problems with domestic internal debt. Yevgeny Yasin, one of the collaborators on the 500 day plan, calculated in August that the size of the budget deficit would reach 250-350 billion rubles which he said approximated 12-15% of the country's GNP. Most problematic of all, of course, is that as the union disintegrates, it is unclear who will transmit what portion of the tax revenue to the center. Thus the reporting of debt as a percentage of GNP becomes more and more of a guessing game. It looks indeed that the union center is relying more and more on the printing press rather than taxes to generate the rubles it needs to pay its bills. That is why prices and money incomes have gone up so.

Soviets Publish Balance of Trade Figures

This kind of table is rarely seen, and therefore there is no way to judge just how accurate it may be. It was prepared in early summer. It does show, however, that there has been a continuing deterioration in the trade as well as the invisible service balance.

One of the things we do not know, of course, is whether these figures refer to hard currency or total trade balances. The fact that they used billions of dollars suggest that it is probably just the hard currency balance.

Another interesting aspect of the table is that it shows gold exports hover between $3.5 to 4 billion a year.

Another noteworthy feature is that the size of the foreign debt for 1991 is predicted to be as high $80 billion but that may not be a net figure and may not allow for the fact that the Soviet Union holds currencies in other countries. Whatever the precise meaning of these data, one thing is clear--the economic situation has been deteriorating and the crisis that followed after the coup certainly will do nothing to improve conditions, at least in the short run.

Soviet Balance of Trade 1986 - 1990 and estimates for 1991 (in bils. of dollars)

	1986	1987	1988	1989	1990	1991
Commercial Operations	4.1	8.3	4.8	--	-5.7	-6.0
Noncommercial Operations	-1.8	-1.6	-3.2	-3.8	-5.0	-6.5
Current accounts balance	2.3	6.7	1.6	-3.8	-10.7	-12.5
Balance of capital flows	-5.7	-12.5	-6.1	-3.6	-7.2	-7.5
Gold	4.0	3.5	3.8	3.7	3.6	4.0
Total Balance	0.6	-2.3	-0.7	-3.7	-14.3	-16.0
Decrease in reserves	-1.8	0.6	-1.2	0.6	9.6	--
Necessary capacity of supplementary financing	-1.2	-1.7	-1.9	-3.1	-4.7	-16.0
Foreign debt	31.4	39.2	43.0	54.0	60.0	80.0

Senator William Bradley will speak at the Russian Research Center corporate sponsor seminar.

The Russian Research Center will hold the first of its corporate sponsor seminars on October 25, 1991. Senator William Bradley has agreed to be the feature speaker at this first corporate sponsor seminar. He has devoted considerable attention to the economic situation in the Soviet Union.

This will begin our conference program for the year. Our conference schedule for the academic year 1991-92 may not be as ambitious as in years past, but we thought it would be useful to take a look at the Soviet Union and the climate for investment in the aftermath of the attempted August coup.

This first session will be slightly different from the way we conducted these conferences in the past. Because it is alumni weekend at Harvard and we were unable to obtain the Harvard Faculty Club, we have moved the conference to the World Trade Center just outside downtown Boston on 164 Northern Avenue. The parking is easier and it is more accessible to the airport. Some attendees may even decide to take the boat shuttle from the airport to downtown Boston and from there it is a short cab ride or even a walk to the World Trade Center. In addition we are co-sponsoring this conference with the Cambridge East-West Consulting group--a group we have worked with once before.

As the enclosed program indicates, we will focus first on the political, legal and economic side of what is taking place within the Soviet Union and then hear the views of representatives from the government and from members of the business community.

News from the Center

In the aftermath of the attempted August coup in the Soviet Union, fellows at the Russian Research Center were besieged with requests to write and analyse the events. We have included more reprints of articles than we usually do but then again this only a small fraction of what has appeared. In addition we have included an AP dispatch which describes the atmosphere at the Center in these last few weeks. There were also some very praiseworthy articles in the *Harvard Crimson* and the *Boston Phoenix*, a weekly paper. It has been an unusually active and exciting time.

In response to our last Economic Newsletter, Robert Brimberry of Dresser Industries would like to point out that Dresser is still actively involved in doing business in the Soviet Union.

FOREIGN EXCHANGE RATES
as of September 4, 1991
Quoted in rubles

	Official Rate	Commercial Rate	Tourist Rate
£100 Sterling	100.38	301.14	5377.60
100 Aust. Sch.	4.86	14.58	260.44
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100 Sw. Kronor	9.42	28.26	504.73

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Oil and Gas Potential of the Soviet Union

*James W. Clarke**

Western companies are now very actively engaged in exploration and assessment in nearly every oil and gas basin of the Soviet Union. Although predictions of what will be discovered must be based on indirect approaches, the overall assessment for undiscovered oil and gas is probably very reliable. Moreover, geologic conditions in the Soviet Union are favorable for significant discoveries.

In order for oil and gas production to be maintained at a given level and for the reserves-to-production ratio to remain steady, the amount of effort allocated to exploration and development must be increased from year to year. This is due to the fact that, in general, exploration targets become harder to find and are smaller and less economic. In the late 1980s, the Soviets began to divert funds away from exploration and development to the consumer sector of the economy. Soviet exploration-development allocations are now 20-30 percent below what they should be for the healthy growth of their oil-gas industry. The drop in Soviet oil production over the last two years can be attributed to a large extent to the lack of money. Many other factors are involved, of course, such as the high water cuts in some of the newly producing fields, insufficient and outdated equipment, poor working conditions, and accidents. But the fact remains: The Soviets need financial assistance. *The recent drop in Soviet production does not reflect a decrease in the resource base.*

What is the Soviet resource base from the geologic standpoint? In West Siberia the large fields that have so far been discovered are on "structure," that is, in areas where the reservoir beds and their overlying seals are arched up like an inverted saucer. These structures can be found relatively easily by seismic surveys. Tens of billions of barrels of recoverable oil and hundreds of trillions of cubic feet of natural gas have been found in these traps, and exploration for such traps continues. But this is not necessarily where most of the oil in the Soviet Union lies.

In recent years, Soviet geologists have found that large bodies of sandstone (reservoir rock) are present in delta-like deposits (stratigraphic traps) that are not associated with structures. Delineation of the stratigraphic traps requires more advanced seismic instrumentation and interpretation than are now being used in the Soviet Union. The seismic equipment used by the Soviets is generally thought to be two generations behind that of the West. The electrical cables leak, the geophones are of poor quality, and they do not have adequate computers to process their data. Yet the Soviets are finding these stratigraphic traps, and some of them are giants (elephants). The trend and disposition of the stratigraphic traps that have been found so far indicate that many more such "elephants" are to be found by high-resolution seismic surveys or by reinterpretation of seismic survey data already available.

The rocks that are host to the oil and gas pools of the structural and stratigraphic traps of West Siberia are largely Cretaceous (deposited between 60-140 million years ago) in age. Beneath these Cretaceous rocks are rocks of Jurassic age (deposited between 140-200 million years ago), which are largely unexplored. Although they may not be as productive as the Cretaceous, there is a good chance that the Jurassic rocks will carry prolific gas condensate pools throughout a large region of northern West Siberia.

The southern Kara Sea is geologically part of West Siberia. Recent discoveries in the Kara Sea, combined with other recent discoveries in the Barents Sea, have added more than 250 trillion cubic feet (TCF) of natural gas to the Soviet reserves. And exploration in these two seas is only in the early stages. The Barents Sea has the advantage of having an extension of the geology of the onshore Timan-Pechora oil-gas province low in its section, which is overlain by an extension of the geology of the North Sea and West Siberian oil-gas provinces. These represent two good "shots" at oil and gas occurrence, as well as the added possibility of oil and gas generated in the lower play having migrated upward and being trapped in the upper play.

East Siberia is relatively unexplored. The area of possible oil-gas productivity is equal to about 60 percent of that of the conterminous United States. One Western company claims to have delineated 73 unexplored structures in the southern (Irkutsk) part of this vast region. The gas produced in this region would be transported eastward to the Pacific Ocean. It is too far to ship it westward into the European system. In fact, negotiations with the Japanese to build a pipeline from East Siberia to the Pacific Ocean are currently in progress.

At least ten unexplored structures are present in the Sea of Okhotsk just east of Sakhalin Island. Both oil and gas are expected on these structures. The gas will probably be shipped to Japan via pipeline, which will cross the narrow strait between Sakhalin and Hokkaido.

And what are the prospects for the older producing regions of the Soviet Union? The Baku area of Azerbaidzhan is the oldest producing oil patch in the country. Yet, the Soviets say that this area is only 25 percent explored. Several large structures both onshore and offshore in the North Caspian oil-gas province are yet to be drilled, and one or more Tengiz-size (5-10 billion barrels) fields are likely to be found. The location of these structures on published maps indicates they are certainly favorable for discoveries; furthermore, these are only the structures that have been located in the early stages of exploration of the deep subsurface of the North Caspian depression. The Turkmen and Kazakh republics are also offering areas for exploration that appear to have good potential.

Soviet geologists are very capable scientists and they know how to find oil. However, the Soviet system has lagged behind because of the lack of investment capital, poor quality geophysical instruments and oil-field equipment, bureaucratic control that hindered creative thinking, and a system of reward based on productivity rather than on financial viability. The Gorbachev era has seen *glasnost* (freedom) and *perestroika* (economic restructuring). There is a *third* change that is just as important, that is, *preobrazovaniye*, which is essentially a change in the self-image of the individual and of the people as a whole.

The Soviet Union has faltered in its reform because it has not yet experienced this "preobrazovaniye." On the other hand, the Soviet petroleum geologist is full of "preobrazovaniye" and is fully committed to working with the West. It will be to the great advantage of the Western world to enter, *with proper caution*, into exploration and development of Soviet oil and gas. The resource base is not a problem. The geology of the various oil-gas provinces strongly suggests that more than sufficient oil and gas is to be found to justify entry into this realm.

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*Dr. Clarke is with the World Energy Resources Program, U.S. Geological Survey, Reston, Virginia. He has specialized for over thirty years in the petroleum geology of the Soviet Union. He publishes *Petroleum Geology*, a bi-monthly journal which reviews the petroleum geology of the Soviet Union.

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ECONOMIC NEWSLETTER

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Economic Results through August 1991

The economic data continued to be considerably more unreliable and fragmented than in the past. However there is some information even though it must be treated with caution. At this writing the latest economic statistical reports that we have are for the first eight months through August 1991. Industrial production is reported to have dropped by 6% in August compared to August 1990.

As regards specific industries, coal extraction was down 11% in both August and for the eight month period as a whole and oil production is down 10%. That means that the country has had 52 million tons of coal less than the preceding year and a contraction of 38 million tons of oil.

The production of rolled metal was down 12% and there were 13% fewer tractors. In a similar way, sulfuric acid production dropped 10% for the first eight months of 1991, including a 15% drop in August.

The output of food products was down 10-13%. Production of other household items such as soap and detergent was down 17-20%.

Much of the deteriorating situation in August was of course due to the coup. Production, despite some denials, came to a standstill at least in Moscow and Leningrad during the period of August 19-21.

The Budget Deficit Continues to Deteriorate

In the confusion as to who is in charge, a union or the republics, it turns out that there are almost no taxes being collected by the center. Therefore, if anything, it is surprising that the budget deficit is reported to be only 144 billion rubles as of early September. When the deficits that have accumulated in the different republics are added, the budget deficit now surpasses 200 billion rubles. That in turn helps to explain the growing outpouring of rubles. As the accompanying table indicates, over the past thirty years, the ruble's circulation has increased seven fold and the velocity has tripled.

(In bils. of rubles)

Year	Yrs. money income	Turnover of the average money stock (in days)
1960	90.2	30.0
1965	127.8	39.9
1970	193.0	49.8
1975	268.7	61.1
1980	342.3	66.9
1985	424.2	75.5
1990	652.9	91.3

There are also reports that in August 1991 the amount of money printed equalled the total amount of money printed in all of 1990. That should help explain why there is such a large increase in incomes and why inflation now exceeds three hundred percent a year and is heading towards hyperinflation.

The Black Market

The Soviets have also published some additional information about the income of the black market, or the dark market as they call it.

It is uncertain how they gathered such information, but the Goskomstat, the state statistical agency, reports that the black market in 1990 grew almost by one-half. In 1990 approximately every fourth ruble of income was obtained from the black market, that is, from the sale of non-food goods. Based on a sampling of family budgets, approximately 20% of all the purchased motorcycles and over 10% of the VCRs and about 25% of all automobiles that were purchased were purchased outside official state channels. The income from speculation on automobiles and spare parts was estimated to be sixteen billion rubles.

The Nationality Structure of the Soviet Union

The Soviets have published some recent data showing the composition of the different major nationality groups by republics for 1989. They also have made a comparison with 1979. These data show that as of 1989 the number of Russians was still more than half of the total population. If the survey were made today, that would probably not be the case. Many people in what used to be the Soviet Union would declare themselves Russian for convenience, but now with the heightened ethnic tensions that have developed, it is likely that many of the people that formerly indicated they were Russian would go back to calling themselves one of the minorities. The ethnic groups that have risen in size are primarily in the Muslim regions: particularly in Uzbekistan and the other Central Asian republics as well as Azerbaijan. The Armenians seem to be the people that are less concentrated in the republic of Armenia itself and are more spread out around the country.

	% of population	
	1979	1989
Russians	52.4	50.8
Ukrainians	16.2	15.5
Belorussians	3.6	3.5
Uzbek	4.8	5.8
Kazaks	2.5	2.8
Georgians	1.4	1.4
Azerbaijani	2.1	2.4
Lithuanians	1.1	1.1
Moldavians	1.1	1.2
Latvians	0.5	0.5
Kirghizi	0.7	0.9
Tadzhiks	1.1	1.5
Armenians	1.6	1.6
Turkmeni	0.8	1.0
Estonians	0.4	0.4

	# s in thousands	% of population on native territory
Russians	145155	82.6
Ukrainians	44186	84.7
Belorussians	10036	78.8
Uzbek	16698	84.7
Kazaks	8136	80.3
Georgians	3981	95.1
Azerbaijani	6770	85.7
Lithuanians	3067	95.3
Moldavians	3352	83.4
Latvians	1459	95.1
Kirghizi	2529	88.2
Tadzhiks	4215	75.3
Armenians	4623	66.7
Turkmeni	2729	93.0
Estonians	1027	93.8

FOREIGN EXCHANGE RATES
as of October 2, 1991
Quoted in rubles

	Official Rate	Commercial Rate	Tourist Rate
£100 Sterling	102.00	306.00	5613.12
100 Aust. Sch.	4.97	14.91	273.62
100 D. Marks	34.90	104.70	1920.65
100 D. Guilders	30.97	92.91	1704.39
100 U.S. Dollars	58.15	174.45	3200.00
100 Fr. Francs	10.27	30.81	565.32
1,000 Jap. ¥	4.38	13.14	241.29
10,000 It. Lire	4.67	14.01	256.82
100 Swiss Frs.	40.17	120.51	2210.71
100 Nor. Kroner	8.92	26.76	490.84
1,000 Bel. Frs.	16.98	50.94	934.58
100 Sw. Kronor	9.56	28.68	526.19

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